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# Russian Federation

# Grain and Feed

# November Update

# 2002

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**Report Highlights:**
**Post increases its total Russian grain production estimate for MY 2002 to 85 million metric tons (mmt), the majority of which will be wheat. Due to an extremely active first quarter of the marketing year, wheat and barley exports are forecast at historic highs despite few improvement in domestic infrastructure, potential restrictive trade measures of the EU, and shipping bottlenecks. State procurement of grain will be conducted again this year, but is expected to have little impact on prices.**

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Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
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## Executive Summary

Post increases its total grain production estimate for MY 2002/03 to 85.0 million metric tons (mmt), almost 60 percent of it wheat. Average wheat quality is forecast to be lower than last year, but given a bigger crop, the amount of class three wheat (food quality soft wheat of high grade) is estimated by experts to be the same- 15.5 mmt. Post forecasts that total grain exports in MY 2002 will reach 8.9 mmt. In spite of restrictive EU measures against Russian and Ukrainian grain exports and bottlenecks in shipping grain abroad, wheat and barley exports are forecast at historic levels. Exports already reached 3.6 mmt in July-September 2002 and traders are actively investigating non-EU markets. Post increases the forecast of wheat exports by 500,000 metric tons to 6.0 mmt and decreases the forecast of barley exports by 300,000 metric tons to 2.8 mmt.

## Production

As of October 15, Russia harvested 92.1 mmt of grains and legumes from 43.1 million hectares (89.2 percent of sown area). Average yield of grain (excluding corn) is 2.15 tons per hectare, 0.03 tons per hectare higher than in 2001. Wheat has been harvested from 23.8 million hectares (92 percent of area), and the crop is 52.5 mmt versus 49.3 mmt for the same time last year. Yield is 2.25 tons per hectare, 0.03 tons per hectare higher than last year. Corn has been harvested from 235,200 hectares (30 percent of area), and 770,100 tons have been threshed compared with 589,200 metric tons for the same period last year. Average corn yield is 3.26 tons per hectare (in 2001 - 2.2 tons per hectare). As of October 10, 2002, the rye crop amounted to 7.1 mmt compared with 7.0 mmt in 2001. According to the Russian Grain Inspection Service, the share of food quality wheat (classes three and four) is 65 percent of the total, during the last five years it was lower only in 1999 (62 percent). Food quality rye is 91 percent of the total, of which 37 percent tested as class one.

## Trade

For the first three months of MY 2002/03 Russia exported over 2.7 mmt of wheat (in grain equivalent), about six times more than in the same period last year and 845,000 tons of barley, 43 percent more than in July-September 2001. Despite the fact that domestic infrastructure has not improved significantly, traders prepared themselves better in 2002 than in previous years by establishing relationships with foreign ports, including both Ukrainian and Baltic ports. Additionally, the export pace this past summer and fall, stimulated by the EU's threat to increase imports tariffs above import quotas, was much more active than usual. These two factors allowed traders to augment Russia's export potential.

Quarterly export tables by country for wheat, wheat flour and barley for MY 2001/02 are included below.

**Table 1. Wheat and Barley Exports in April-September 2001 and 2002, by Months, 1,000 Metric Tons**

| | Wheat exports (including wheat flour in grain equivalent) 1,000 metric tons | | Barley exports, 1,000 metric tons | |
|---|---|---|---|---|
| | Year 2001 | Year 2002 | Year 2001 | Year 2002 |
| April | 33 | 499 | 106 | 185 |
| May | 45 | 513 | 310 | 226 |
| June | 61 | 421 | 174 | 79 |
| July | 65 | 528 | 217 | 196 |
| August | 285 | 897 | 176 | 274 |
| September | 118 | 1,293 | 148 | 375 |
| Total 6 months | 607 | 3,681 | 1,131 | 1,335 |

Source: Russian State Customs Statistics monthly data

In addition to big grain companies, local companies and even local administrations in European Russia also sold grain abroad. Most of this was sold individually, through non-transparent channels. Also, oblasts tended to hide their dealings with foreign importers because they didn't want to share vital trade contacts with potential competitors or declare prices. Therefore, it is possible that actual exports are higher than official numbers.

## State Procurement
### Procedure

The procedure for state procurement interventions to regulate the grain market in 2002-2003 was given in GOR Resolution #1826 issued on October 17, 2002. According to this Resolution, the state unitary enterprise (a state owned enterprise that conducts commercial business) the Federal Agency for the Regulation of the Food Market, under the Ministry of Agriculture of the Russian Federation will conduct the state procurement and place grain for storage in the grain intervention fund. The Federal Agency can borrow six billion rubles from the Savings Bank (Sberbank) of Russia (approximately $192 million) to finance the procurement under the guarantees of the Russian government. The portion of credit which will cover the expenses related to servicing of credit and storing of grain will be covered by funds allocated for Agriculture and Fishery from the Federal Budget.

### Budget
On October 31, 2002 a special Federal Law amending the Federal Law "On the Federal Budget 2002" was signed by the President. This law adds more than two billion rubles to the budget of the above Federal Agency specifically for servicing grain purchase interventions, including paying the cost of servicing credits, the cost of storing procured grain and payments for services of the Federal Agency. The remaining four billion rubles of credit will raise the internal debt of the Russian Government and will be paid off from sales of grain from the state reserve. The Ministry of Agriculture will sign an agreement with the Federal Agency determining the

procedure and conditions for conducting state grain procurement interventions. The grain interventions envisage procurement of class three and four wheat and rye. The resolution established the prices below at which the state procurement intervention shall be conducted in 2002-2003: 2,300 Rubles ($72.3) per metric tons of soft food quality class three wheat; 1,800 Rubles ($56.6) per metric ton of soft food class four wheat, and 1,400 Rubles ($44) per metric ton of class one food rye.

## Tariff Policy

The Grain Union of Russia is lobbying a special 15 percent import tariff which would be added to the current five percent tariff for class three wheat and food quality rye, ( i.e. grain similar to that which will be purchased in course of grain interventions), as an attempt to protect the domestic market. However, it is very unlikely that this measure will be adopted or be effective, because most imports come unregistered from Kazakhstan through a porous borders. If implemented, besides potentially spoiling trade relations with Kazakhstan, it will most likely only result in a decrease of officially declared imports.

## Prices

The fall in grain prices, which began in June, has stopped and prices have stabilized at low levels**.** Post believes the major reason for the arrest in declining prices was information about delays in harvesting in Siberia and the Urals (due to inclement weather) and information about active grain exports. However, most of the grain that traders plan to export has already been procured, removing it from the market, and therefore no longer thought to influence prices. Rumors of state grain procurement did not significantly influence prices. According to experts, grain procurement may better serve the interests of producers in Siberia than in European Russia because less grain from the first region is exported. Given that in Siberia the local price of class three wheat varies from 1,600-1,900 rubles per ton, sales at the state procurement price will be profitable.

## Transportation

The Resolution of the Federal Energy Commission of the Russian Federation of September 19, 2002 #61-t/1 changed the level of railway tariffs. Starting September 9, 2002 until December 12, 2002 the rates for bulk shipments of grain (domestic cargo code - 011-014) will only be 80 percent of the strandard cost for distances over 200 kilometers. This measure may stimulate some grain shipments to the Far East, which will be used mainly for domestic consumption. There exists the possibility that some of this may be exported. However, grain has not been exported from the Far East ports in the past. Additionally, the distance from main growing areas remains very large and inclement weather may also impede movement. If there are any exports in 2002/03, they will only be a very small fraction of the total.

## Wheat

Post decreases the MY 2001/02 wheat import estimate to 496,000 metric tons and increases exports to 4.4 mmt based on the quarterly official customs data for wheat and wheat flour trade, which was updated last month (in the PSD table, Post uses 1.4 coefficient for conversion flour into grain equivalent). Due to the porous border with Kazakstan, actual imports are likely higher than official data. Some reciprocal trade agreements for a variety of goods exist and if it is convenient or profitable for wheat users along the border to purchase from Kazakstan, they do. However, post believes very little Kazak wheat is transhipped through Russia.

Post increases the export forecast for 2002 to six mmt as exports in the third quarter of 2002 (first three months of MY 2002/03) exceeded 2.7 million metric tons, a historic high. Restrictions on imports of Russian wheat by the EU are being discussed, however significant quantities of wheat have already been shipped and the threat of tariffs has only stimulated trade. Russian officials also mentioned in September that retaliatory measures (like an increase in import tariffs on meat and dairy products imported from EU) can be introduced in case of restrictions on grain shipments from Russia. Traders are also searching for other markets. For example, Roskhleboproduct negotiated wheat supplies to Iran.

**Table 2. Wheat Supply and Distribution**

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country: | Russian Federation | | | | | |
| Commodity: | Wheat | | | | | |
| | | 2000 | | 2001 | | ?? |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 07/2000 | | 07/2001 | | 07/2002 |
| Area Harvested | 23200 | 23200 | 23800 | 23800 | 25700 | 25700 |
| Beginning Stocks | 1200 | 1200 | 1400 | 1400 | 6400 | 6400 |
| Production | 34450 | 34450 | 46900 | 46900 | 49000 | 49000 |
| TOTAL Mkt. Yr. Imports | 1604 | 1604 | 550 | 496 | 500 | 500 |
| Jul-Jun Imports | 1604 | 1604 | 550 | 496 | 500 | 500 |
| Jul-Jun Import U.S. | 45 | 45 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 37254 | 37254 | 48850 | 48796 | 55900 | 55900 |
| TOTAL Mkt. Yr. Exports | 696 | 696 | 4372 | 4408 | 5500 | 6000 |
| Jul-Jun Exports | 696 | 696 | 4372 | 4408 | 5500 | 6000 |
| Feed Dom. Consumption | 11500 | 11500 | 14000 | 14000 | 17500 | 17500 |
| TOTAL Dom. Consumption | 35158 | 35158 | 38078 | 37988 | 41500 | 41500 |
| Ending Stocks | 1400 | 1400 | 6400 | 6400 | 8900 | 8400 |
| TOTAL DISTRIBUTION | 37254 | 37254 | 48850 | 48796 | 55900 | 55900 |

**Table 3. Wheat Exports in MY 2001/02, by Quarters, by Country in Alphabetic Order, 1,000 Metric Tons**

| Exports | | | | | |
|---|---|---|---|---|---|
| | IIIQ 01 | IVQ 01 | IQ 02 | IIQ 02 | MY 01/02 |
| Albania | 3.0 | 11.1 | 51.2 | 19.3 | 84.6 |
| Algeria | 32.3 | 96.3 | 126.5 | 129.8 | 384.9 |
| Armenia | 8.1 | 9.2 | | 3.3 | 20.6 |
| Austria | | 12.4 | 15.2 | | 27.6 |
| Azerbaijan | 49.9 | 76.4 | 50.1 | 53.6 | 230.1 |
| Benin | | | 6.6 | | 6.6 |
| Belarus | | | | 76.6 | 76.6 |
| Congo | | | | 9.1 | 9.1 |

| | | | | | |
|---|---|---|---|---|---|
| Cyprus | 3.0 | 2.8 | 3.0 | | 8.8 |
| Denmark | | | 5.5 | | 5.5 |
| Egypt | 3.0 | 26.7 | 71.1 | 235.1 | 335.9 |
| Estonia | | 3.3 | 6.6 | | 9.9 |
| Finland | | | 3.5 | | 3.5 |
| Israel | 133.7 | 21.7 | 3.1 | 66.0 | 224.5 |
| Georgia | 78.2 | 72.9 | 92.7 | 95.3 | 339.2 |
| Germany | | 2.0 | 10.1 | | 12.1 |
| Greece | 112.5 | 150.5 | 129.8 | 120.7 | 513.5 |
| Hungary | | | 5.0 | | 5.0 |
| Iran | | | | 3.0 | 3.0 |
| Ireland | 0.7 | 10.5 | 15.4 | 4.9 | 31.5 |
| Italy | 156.5 | 210.6 | 258.2 | 313.2 | 938.4 |
| Kazakhstan | 0.0 | 0.1 | 0.1 | 0.6 | 0.8 |
| Lebanon | 9.0 | 5.9 | 14.4 | 66.2 | 95.5 |
| Malta | | | 3.0 | 6.1 | 9.0 |
| Mongolia | | 4.2 | 21.2 | 26.6 | 52.0 |
| Morocco | 17.3 | 75.5 | 72.0 | 82.2 | 246.9 |
| Poland | | 4.0 | 5.0 | 1.9 | 10.9 |
| Saudi Arabia | | | 1.4 | | 1.4 |
| Spain | | 5.0 | 25.3 | | 30.2 |
| Sudan | | | | 15.0 | 15.0 |
| Tajikistan | 1.0 | 1.7 | 0.9 | 0.3 | 3.9 |
| Tunisia | 16.5 | 5.7 | 34.1 | 38.7 | 94.9 |
| Turkey | 12.6 | 82.4 | 172.1 | 172.1 | 439.3 |
| Turkmenistan | | | | 0.0 | 0.0 |
| Ukraine | 1.9 | | 0.1 | 10.4 | 12.4 |
| Uzbekistan | 1.5 | | | | 1.5 |
| | | | | | |
| Other | 6.2 | 3.5 | 0.0 | 0.0 | 9.8 |
| | | | | | |
| Total | 647.0 | 894.4 | 1,203.0 | 1,549.9 | 4,294.3 |

Source: State Customs Quarterly Trade Data

## Barley

Barley exports in July-September reached 845,000 metric tons, the second highest quarterly level in the last ten years after the October-December 1997 period. However, Post decreases the barley export forecast for MY 2002/03 by 300,000 metric tons for several reasons. First, in Russia more than 85 percent of barley is spring barley. Given the dry weather in European Russia and delays in harvesting in the Urals and Siberia, the spring barley crop is forecast lower than last year. Secondly, the southern part of European Russia and the Volga Valley regions are closer to ports and therefore have better opportunities to quickly export local winter barley, but export potential in other regions is lower. Thirdly, since transportation and port facilities in Russia are limited, cheaper wheat is in greater demand and will be exported before barley. Fourthly, local demand for barley is increasing for both brewing and feeding Thus, Post forecasts that barley exports will continue at almost the same rate in

October-December 2002, but will slow down significantly in 2003, and total barley exports will be only 200,000 tons higher than in MY 2001/02. Prices should continue low.

**Table 4. Barley Supply and Distribution**

| | | | | | | |
|---|---|---|---|---|---|---|
| PSD Table | | | | | | |
| Country: | Russian Federation | | | | | |
| Commodity: | Barley | | | | | |
| | | 2000 | | 2001 | | ?? |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 07/2000 | | 07/2001 | | 07/2002 |
| Area Harvested | 9200 | 9200 | 10200 | 10200 | 10400 | 10100 |
| Beginning Stocks | 289 | 289 | 1529 | 1529 | 4386 | 4386 |
| Production | 14100 | 14100 | 19500 | 19500 | 18500 | 18500 |
| TOTAL Mkt. Yr. Imports | 413 | 413 | 200 | 200 | 200 | 200 |
| Oct-Sep Imports | 346 | 346 | 200 | 200 | 200 | 200 |
| Oct-Sep Import U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 14802 | 14802 | 21229 | 21229 | 23086 | 23086 |
| TOTAL Mkt. Yr. Exports | 573 | 573 | 2593 | 2593 | 3100 | 2800 |
| Oct-Sep Exports | 1031 | 1031 | 2600 | 2600 | 3200 | 2900 |
| Feed Dom. Consumption | 8800 | 8800 | 9850 | 9850 | 10600 | 10800 |
| TOTAL Dom. Consumption | 12700 | 12700 | 14250 | 14250 | 15400 | 15700 |
| Ending Stocks | 1529 | 1529 | 4386 | 4386 | 4586 | 4586 |
| TOTAL DISTRIBUTION | 14802 | 14802 | 21229 | 21229 | 23086 | 23086 |